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SEC and Department of Justice Sanction Four Options Exchanges for Anticompetitive Conduct

Amex, CBOE, Pacific, and Philadelphia Censured and Ordered to Spend $77 Million on Surveillance and Enforcement

Washington, DC, September 11, 2000 -- The Securities and Exchange Commission today censured the four floor-based options exchanges for engaging in anticompetitive activities -- in particular, for refraining from listing options already listed on another exchange -- and for failing adequately to enforce compliance with their own rules. The Commission ordered them to collectively spend $77 million on surveillance and enforcement. In the civil administrative proceeding, the American Stock Exchange LLC, the Chicago Board Options Exchange, Inc., the Pacific Exchange, Inc. and the Philadelphia Stock Exchange, Inc., agreed to the censure and undertakings without admitting or denying the Commission's findings.

Also today, the Department of Justice's Antitrust Division filed a lawsuit in the U.S. District Court in Washington, DC against the four exchanges, alleging that their conduct in refraining from multiple listings of certain options violated the antitrust laws. The four exchanges also consented to the entry of a consent decree in the Antitrust Division lawsuit that, if approved by the court, would resolve the lawsuit and provide for relief directed at preventing recurrence of the unlawful conduct alleged by the Antitrust Division.

Chairman Arthur Levitt said, "Investors rely on vibrant competition among our options markets to drive prices to fair and efficient levels, and to fuel technological innovation. The proceedings announced today underscore the commitment of the Commission and the Department of Justice to take action where impediments to competition are found. Through their undertakings, the options exchanges have helped ensure that competition will be the principal force shaping the landscape of our evolving options industry. The result will be enhanced infrastructure for competition and fairer markets for those investing in options."

Richard H. Walker, Director of the SEC's Division of Enforcement, said, "Fair competition and effective self-regulation are hallmarks of our securities markets. The options exchanges named in today's enforcement actions did not fulfill adequately their responsibilities in both respects. We are confident that, going forward, investors will see increased competition among the options exchanges and significant improvements in the oversight and operation of the options market."

The Commission's Findings

The Order finds that:

* The exchanges unlawfully refrained from listing certain options that were already listed on another exchange (i.e., multiple listing of an option), and took steps to discourage or hinder multiple listing of options;

* Certain exchanges rebuffed proposals by their member firms to multiply list options listed on another exchange, and, in some instances, threatened or harassed the member firms that made such proposals; and

* The exchanges have not satisfied their legal obligations to effectively enforce compliance with the following exchange rules:

  - Priority Rules (which generally require that a customer limit order be executed before any other orders at the same or inferior prices);

  - Firm Quote Rules (which require specialists or market makers to trade specified minimum numbers of options at the prices they quote);

  - Limit Order Display Rules (which generally require display of customer limit orders that improve the quoted price);

  - Trade Reporting Rules (which require the timely reporting of trades); and

  - Rules or Policies Against: harassment, intimidation, refusals to deal or retaliation that are meant to protect members of the exchanges who seek to act competitively.

These failures to enforce compliance with exchange rules were uncovered as part of the Commission's routine inspection program for self-regulatory organizations.

The Exchanges' Undertakings

The exchanges have agreed to a number of undertakings which address the concerns of the Commission and the Antitrust Division, and which will promote competition and substantially reform and improve the options markets. Pursuant to the undertakings, the exchanges will:

* Design and implement a consolidated options audit trail system that will enable the Exchanges to more effectively conduct surveillance of the markets and enforce Exchange rules governing how Exchanges handle customer orders.

* Modify the rules relating to options listings to facilitate competition in listings.

* Enhance and improve surveillance, investigative and enforcement processes with respect to rules governing how investor orders are handled, and enhance sanctions for violations of rules governing how Exchanges handle investor orders.

* Adopt rules that formalize the way the Exchanges handle

proposals by members to list particular options and make it easier for members to propose listings (including multiple listings).

* Adopt improved trade reporting rules to provide more timely and transparent information to the public, to enhance effective surveillance of the market and to aid in the enforcement of order handling and other rules.

* Modify certain rules relating to the system that transmits the quotations and trade reports of the Exchanges so that Exchanges cannot improperly limit a competing Exchange's electronic capability to transmit quotations and trade reports.

* Adopt or improve rules designed to enhance the competitiveness of automated quotation systems used by the Exchanges.

* Obtain Commission approval for practices or procedures involving agreements among market makers concerning the prices of options or allocation of orders, and stop any unapproved or disapproved practices or procedures.

* Strengthen protections for exchange members against retaliation, harassment, intimidation and similar conduct for acting or seeking to act competitively.

The Exchanges' Financial Commitments

For calendar years 2000 and 2001, the exchanges have committed to spend for options-related surveillance systems and staffing for options related surveillance, investigation, and enforcement, a total of $77 million. The individual annual amounts for each exchange are:

American Stock Exchange:	$22 million ($11 million per year)
Chicago Board of Options Exchange:	$34 million ($17 million per year)
Pacific Exchange:	$13 million ($6.5 million per year)
Philadelphia Stock Exchange:	$8 million ($4 million per year)

The amounts specified for each Exchange do not reflect any determination of an Exchange's relative degree of culpability with respect to the conduct alleged in the Order.

(Securities Exchange Act Rel. No. 43268; Administrative Proc. File. No. 3-10282).

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The Commission and the Antitrust Division have worked closely and cooperatively throughout the investigation and resolution of these matters. The Commission thanks the Department of Justice's Antitrust Division and its staff, and looks forward to continuing this cooperative relationship.

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